Real Estate: Five Questions …
A Conversation with Riaz Azadi
14 April 2021

Speaker	Dialogue
Naveen Vijh, Head of BCLP's Real Estate Finance Team	[*music*] Hello, and welcome to the first in a new series, [*inaudible*], and now it's called Five Questions. The format is incredibly simple. We invite a leading real estate industry sector leader, and ask him five important questions about their sector or industry, and that's it. So today our guest speaker is, is Riaz Azadi who is Managing Director at Eastdil Secured, who really needs no introduction, and asked me to thank you. Many thanks for joining us this morning.
Riaz Azadi, Managing Director of Eastdil Secured	Thanks, Naveen. Good to see you and nice video.
Naveen Vijh (BCLP)	[*simultaneous speaking*] [*inaudible*][*laughs*]
Riaz Azadi	[*laughs*]
Naveen Vijh (BCLP)	[*laughs*] Thanks, Riaz. So before we start asking Riaz any questions, let me ask the audience a question. So in a moment you'll see a poll come up on your screen and it asks you a relatively simple question: "Are you optimistic for your sector for this year? Yes or No." You should be able to click the buttons on your screen and once you do that, I'll just give you some housekeeping, housekeeping notes. The console you're looking at, brand new consoles for us, can be completely customized, you can resize it, move any windows you have open, you can maximize if it needs a player for webinar to view the speakers more clearly. If at any point you see an error in the media window just please simply refresh your browser, it should work. And the box in the console on multiple application widgets that you can use, one of those is a Q&A, so just press on that and click if you have a question. We will see if we can get to it in the time that we have. We're trying to keep this webinar down to about 20 minutes so we may want to have some time to hope you will be able to send your [*inaudible*] response. The webinar, just to let you know, is being recorded and an on-demand version will be sent to you afterwards. And, finally if you're experiencing any technical difficulties, then please click on the orange help button and visit our webinar Help Guide there, or obviously just the Q&A. So, with no further ado, you'll see the five questions are on the screen there, so we ask, let's just turn to the first one. So, number one: How do you view real estate as an investment asset class in comparison to other investment assets? Riaz, over to you.
Riaz Azadi	So, so, so I think, from a big picture, a macro point of view, it's really the question around the CIO conundrum. If I've got a hundred dollars or pounds to invest, you know, what sector can I go into? And, the reality is, you know, you look at the percentage of negative yielding treasuries. I think at the end of last year, it was close to around 27% of global treasuries were, were sub-zero, so around 17 trillion. It doesn't leave you, you know, a lot of options if you're looking to, to effectively make a positive yield. And as you look at real estate, whether it's at the Core end or looking to manufacture Core, you certainly have the ability across the range of different risk profiles, you know, going from Core through to Value Add. Its action[sp] generate a pretty outsized

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	return when you're comparing real estate to, you know, some of the non-real estate sectors. So, so, you know, as we view it, very much real assets is, is, is where we may continue to see a lot of flow, but also increasingly new entrants that are coming into the market, both from a debt as well as an equity perspective.
Naveen Vijh (BCLP)	They're quite positive on the whole?
Riaz Azadi	So far. Yes. [*laughs*]
Naveen Vijh (BCLP)	So, question number two: Where is the liquidity coming from? And one of the, one of the questions that we have was a question about spreads as well. So one of the questions we have is: Where do you see liquidity and spreads on [*inaudible*] as we moved into second half of this year, which is [*inaudible*] is the one we're asking?
Riaz Azadi	Cool. So, so maybe just sort of take it in turn. In terms of where, where see we the liquidity coming from, I think maybe there's two, two parts to that question. Part A around the, the equity side of the equation, and Part B sort around the debt side of it. Sort of from an equity point of view, we, we do continue to see a lot of capital flowing, particularly into, you know, Core, Core Plus, which a lot of organizations who historically may have nothing sort of oriented around that, have certainly been growing in, you know, in, increasing volumes. And I think I just sort of look at the, you know, overall where, where the liquidity is coming from. It sort of goes back to this point around, you know, what's your risk appetite?; what's your risk profile? And if you take, you know, a, a number of the sort of household names, certainly within the UK or Europe, they, they really increase their, their firepower, not just within sort of the Value-Add or more Opportunistic sector, but also, you know, the Core, Core Plus, Value-Add side of things. I think from the flip side of it, you also see a, a number of groups who may historically have been more focused around Core Plus, Value-Add, also beginning to drip more into Opportunistic, and certainly some of the sectors outside of real estate, like infrastructure and, and, and also private equity, beginning to sort of bump up or touch things that may, you know, traditionally be viewed as, as real estate transactions. So from a macro point of view it's really, you know, won[sp] from a risk profile. There is plenty of money getting raised in each of these different sort of risk buckets, and then B from, you know, in terms of the, call it, quality or the breadth of who sort of getting this capital allocated and applying it, that also seems to be growing. Geographically, maybe the one, one thing i-, to notice particularly when you get into the, sort of say, larger sort of ticket size and lot[sp] sizes, you know, the, the world does get pretty small pretty quickly, and so a lot of the time, you know, these investment committees or credit committees will be looking at, you know, relative risk return for, you know, whatever sector and risk profile they're interested in, not just in London but London versus Paris versus Munich versus New York, so on and so forth.

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	So, so we really do see a lot more, you know, or continued [*inaudible*] in, within the real estate sort of market. On the debt side of it, it's, you know, al-, also equally exciting insofar as, there is a lot of new, new entrants, and, I think over the last 12 months, we've, we've certainly seen more than ten, ten new groups enter the market who've had capital allocation either from sort of traditional LP type clients or alternatively from a number of insurance companies who historically may have not done direct real estate lending but certainly looking to get more exposure and allocation to it. So, certainly the private markets, these, these are a number of the sources and then probably the, the, the one thing to keep an eye on the share, which is pretty positive, not, not to be too rosy around everything but, you know, the CNBS [SP] market, certainly the US has been absolutely on fire, relatively speaking, and, and certainly in Europe, the number of the recent transactions, [*inaudible*], you know, placed with great success. So as far as sort of diversification of capital in all these things, it, it, it feels like, you know, a) we're in a much better spot than we were 12 months ago this time, but also relative to, you know, 2019 direction it feels like things are improving, and improving pretty, pretty rapidly. Having said that, …
Naveen Vijh (BCLP)	[*simultaneous speaking*] Where ….
Riaz Azadi	… there are headwinds, that we need to be aware of, because obviously there's a ton of subsidies, QE [SP], other government programs and stimulus that's been supporting everything. So, I think that's, that's probably the one, one component that we just, you know, collectively need to keep a little bit of an eye on. And, and hence, you know, need to sort of stick to the guns around underwriting and everything else, and maintain the discipline there. And I think, as we sort of think about spreads, you know, if you, if you look at sort of bank CDS spreads, there's a bit of proxy for their cost of funds. Those have been tracking down, they have been certainly down, and we have seen directionally, ti-, margi-, margins tightening. And certainly for, you know, alternative lenders, we've also seen, seen the same, really the function of the Repo [SP] market being a lot more sort of liquid and, and more competitive than it was, certainly last year, but even relatively speaking, you know, not, not, not to this summer, it's in 2019.
Naveen Vijh (BCLP)	Yeah, it's not strictly on one of questions, but just to come back on one of the points you made. A number of new debt funds entering the market, ten, ten I think you mentioned that you're aware of, we are seeing same thing. Why, why we seeing these, these [*inaudible*] new entrants this year?
Riaz Azadi	You know, so, so I guess this sort of goes back to question one, right, which is how do you view real as an investment class? And notice that we think about it and try to second [*inaudible*] and really, you know, a lot of the times, from a common equity or a first loss position. Having said that, there's, there's perfectly or

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	equally good ways of accessing real estate through the credit markets and so, I, I guess case in point, as we think of some of the new names that have, that have arrived, they're raising money more around, you know, senior, senior debt orientation, also around whole[sp] loans, some will be, you know, very much construction-focused. And the reality is, if you, if you look at the overall CRE mo-, financing markets here within Europe, historically there's very much sort of a 98, 99% bank-led market. And, you know, that, that's very much sort of trending closer to 70%, it'll go, go lower over time. But that's just been something that has presented a, a world of opportunity, but for senior alternative lenders, as well as, you know, insurance companies to effectively gain, gain more exposure. And the reality is, with the bank aperture[sp], and maybe this is sort of touching on the next question a little bit, in terms of what's a bank appetite, but it does tie into this, is, you know, that aperture will continue to be pretty disciplined. You know, ea-, each of the different sort of bank lenders in the market will have sort of nuances in terms of sectors or geographies that they have greater or less appetite for. And therein sort of lies the opportunity for a lot of the new entrants to effectively be able to deploy capital for more transitional projects, which may be a little bit more speculative in nature, may not fit perfectly with everything a bank wants and, you know, put onto their own balance sheet. And so, you know, I think the, the two tend to go a little bit hand-in-hand in terms of, you know, total available market for whole lenders is pretty big, but at the same time, in terms of the how these lenders are sort of focusing on what their risk appetite is, you know, is, is creating for a marketplace which has many lenders. They can all sort of co-exist, and, and time to time they do partner up as well, versus, sort of 15 or 20 years ago, where, you know, there's, you know, one, one bank that would do everything from being a cornerstone LP investor, right through to, you know, the, the prop-, property level loans.
Naveen Vijh (BCLP)	A fundamental change. But have you, I think that largely answers question three: How has the pandemic changed the bank's appetite to lend in the UK and Europe? But do you have anything more you wanted to add to that?
Riaz Azadi	Yeah, I guess, it, it's probably worth just sort of taking a step back for a minute, and of course, myself included, but we're, we're all very much sort of focused on the real estate sector, real estate industry. Having said that, the pandemic has really spared no one. It, it came with a great degree of sort of violence in terms of the speed at which things unfolded. And so, you know, i-, i-, it sort of weighed[sp] touching on the fact that there's a lot of other sectors that were actually, you know, really in the front of a lot of the destruction that was taking place. Particularly when you think about shipping, aircraft and, and some and, you know, it goes without say, you know, cor-, corporate lending as well. And so, sort of think about real estate as a little bit of a second derivative impact insofar as it took a, it took a couple of IPDs for,

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	and, and I'm generalizing here, obviously things like recon, hotel were, were more acutely impacted, but, you know, for, for the broader sector, we're probably around three to six months behind some of these other sectors, and it's speaking with lenders who have exposure to shipping and aircraft, in particular. That, that was very much where they were fighting a lot of fires early on, alongside of the corporate books. And, and I think, you know, that, that's sort of important context to their mind when think about question four, which is, you know: When, if, is, is there gonna be an NPL cycle around all of this? And, if you sort of imagine, capital allocation, capital losses, and, and these things, you, you, you're gonna tend to allocate those loss provisions toward sectors that are far more acutely impacted, than ones that maybe there's less visibility, whether you're gonna sort of, have an opportunity to get, get back to sort of normal. And at the same time, there will be sub-sectors within real estate, and we're seeing it in the UK, certainly around retail, where there's, you know, an NPL portfolio that, that's in the market at the moment. And it, and it certainly may not be the last one. But I think what it, what it does mean is, in the, in the European context, where we're probably a little bit slower to cut, cut the losses and move on, they'll be a pick-up in, what I sort of described as lender, borrower consensual either sales or refi's, where, you know, that yesteryear's Cap Sac [SP], which was a 60 LTV, may now be 70, 75, or, or higher, and thus need to get recalibrated with, you know, some new capital coming in. So, that's probably where we've seen a little bit more activity on a more consistent basis. It's not to say the NPLs aren't happening, but still, actually, a lot of NPL activity still left over from 2010 to go, sort of, travel east through, through Europe. And so, it, it, it makes for quite a dynamic marketplace where, if you have capital that can think about, you know, JV, can think about preferred with promotes, can sort of think, think about whole loans, there, there's quite a lot of opportunity to help some of the organizations out there that, that do have exposures that'll be more severely affected, to effectively recapitalize their assets but also make sure that they've put themselves in a good spot over the next year or two years, is a real hope we, we can, we can sort of come out of lockdown and return to some, some normality.
Naveen Vijh (BCLP)	Actually we had a, a very specific question around the, the build-to-rent markets, I guess. So, the question was: Do you believe the press[sp] markets[sp] are the debts[sp] of capital targeting the build-to-rent market? Have you seen anything [*simultaneous speaking*] [*inaudible*] in that?
Riaz Azadi	[*simultaneous speaking*] So this … so this only five questions, Naveen. [*laughs*]
Naveen Vijh (BCLP)	It was only five questions. [*laughs*]
Riaz Azadi	[*laughs*]
Naveen Vijh (BCLP)	Now we've got you. I thought, I [*inaudible*] [*audio cuts off*].
Riaz Azadi	Sure, sure, so, so, I think on, I think on the BTR side, let's face it, the, the housing market is certainly one of the biggest markets in the world, and every, everyone needs somewhere to, to live. So

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	as we sort of think about, not just BTR, but also affordable housing, social housing, assisted living, nursing homes, student housing, co-living, and all that sort of various sort of strands within the bed space, there's a huge amount of appetite, and I think part of that just boils down to the fact that the, again the market side is so, so large compared to a lot of other sectors. It's very scalable, it's accessible, and it's one that, you know, hopefully over the, the passage of time will, you know, reap its rewards in terms of cash flow and so on. But it tends to be very durable income, and I think that also speaks to where the liquidity's getting attracted to today, which is, really around either sectors or asset classes or long, you know, long leases, which, you know, capital generally feels more comfortable with, and therefore migrating, you know, very much towards, durable income. And you can sort of take that thematically and apply it to data centres and all sorts of different things, but residential's certainly one that's, you know, top, top of the list. And also equally from a debt capital point of view. It, it's one, one of the sectors that gets a lot of attention from across the board, not just banks but also a lot of the senior alternative debt funds, many of which can also make, you know, their, their loan terms equally compelling, at times, and, and certainly pretty consistently to what the banking market has historically offered around these.
Naveen Vijh (BCLP)	Thank you. And the final question, so I did promise you only five so, I'll come to the final, the fifth and final question: What does the rest of the year look like to you?
Riaz Azadi	So pre-, pretty, cau-, cautiously optimistic. I think right now, it, it feels across the board, and this isn't just the UK common, but across the board, things are picking up. I'd say the, you know, observations for this year is there is little bit more activity around hospitality, which was maybe largely on pause last year while everyone sort of figured out what wa-, what was going on. And not that, you know, there, there's any crystal-clear answers out there, but at the same time with vaccinations and hopefully things coming to an end with lockdowns, some of the, you know, limited service, leisure hotels, et cetera, beginning to pick up a bit of space, particularly around sort of the equity investments. And on the debt side, there, there's a pretty healthy marketplace, predominantly amongst the senior alternative lenders, who, you know, can price competitively but can actually get these deals done in this, this environment. So, I think, as, as we sort of think about it again, you know, there are headwinds, what happens the subsidies come to an end?; you know, are the unemployment rates that we're currently facing actually the true unemployment rates?; et cetera, et cetera. But, but, but at the same, as we're [*inaudible*] in the US, we'll need to see how it sort of plays out. You know, they've come out, they've, making big announcements around sort of infrastructure stand as a way of sort of helping to re-kick start things and, you know, we might, might see the same here in the UK as well. So, we'll, we'll just sort of have to keep an eye on things and, kinda, kinda get too caught up in the [*inaudible*], the least direction of travel, but for the time being, it,

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	it, the, the fact that we're certainly get to be on the more o-, optimistic side.
Naveen Vijh (BCLP)	And, and on that note, it will be interesting to what our audience has said. So if we could turn to that slide. See whether our audience agrees with you ... 91.4% of our audience is, i-, agrees with you, Riaz, they're optimistic about the, the rest of this year. And unbelievably optimistic as haven't we already come to the end of our time. So, Riaz, can I just take this time to say thank you so much for your time with us this morning. Really, really great to hear your views. To the audience, please join us for the rest of the series, it, will, w-, there'll be more, more to come in the next month. And many thanks for joining. There'll be a survey and a [*inaudible*] form sent out soon to Riaz. Thank you for your time this morning. And hopefully we'll all speak soon.
Riaz Azadi	Thanks a lot. Thanks.